

A circular logo with a gold border and a black center. The text 'VFO INNER CIRCLE' is written in gold, uppercase letters inside the circle.

VFO  
INNER  
CIRCLE

**SPECIAL REPORT**

***THE EVOLUTION OF  
THE FAMILY OFFICE***



## LESSONS FROM THE SUPER RICH

# The Evolution of the Family Office



### KEY TAKEAWAYS

- Family offices generally provide expertise in the areas of managing wealth and family support.
- Family offices are increasingly acting as coordinators of expertise, both in-house and outsourced.
- Look for key best practices among those who coordinate family office expertise and service.

Single-family offices are becoming the predominant way for the Super Rich (with a net worth of \$500 million or more) to manage their finances—as well as a portion (and sometimes all) of their personal affairs.

You say you don't have that kind of wealth? Don't fret. The good news is that the family office has evolved from its single-family origins to include new types of structures that are increasingly getting attention from wealthy families who aren't currently at that Super Rich level of affluence.

Take, for example, the virtual family office. It's designed to provide solutions and expertise that can be quite close to what you might get by having your own single-family office. But it's able to deliver those benefits in cost-effective ways that enable families with "just" a few million dollars to take advantage of them.

Because virtual family offices essentially emulate single-family offices, it can be helpful to understand more about single-family offices—how they've evolved over time and what they aim to accomplish. Armed with that information, you can get a better idea of what your experience with a virtual family office might look like if you decide to go in that direction.

## Changes over time

At one time, having a single-family office entailed setting up a separate legal entity and hiring dedicated staff. These requirements have changed dramatically over the past decade. Some Super Rich families, for example, have what are referred to as embedded single-family offices. Using this model, the deliverables of typical single-family offices are provided through the wealthy families' businesses—and delivered largely via external experts who aren't employed by the companies themselves.

Another approach that has developed over time involves a single-family office set up by the family patriarch and/or matriarch that provides a range of services and solutions, while the children (and future inheritors) selectively take responsibility for other services. Commonly, the future inheritors set up their own satellite single-family offices that are focused on managing their investments. This results in the inheritors maintaining many of the advantages of a full-service single-family office without having to arrange for (or bear the costs of) what would be considered an actual full-service single-family office.

As these examples reveal, a single-family office no longer has to be exactly what it was in the past—a legal entity with dedicated staff. What remains important regardless of the model used is having the ability to obtain all the expertise of a single-family office when that expertise is required.

This emphasis on accessing expertise in ways that both are flexible and meet the demands of a particular situation at hand is also something we see among wealth managers who today are providing virtual family office services.



## Expertise provided by single-family offices

So what, exactly, does that expertise look like? Single-family offices, broadly speaking, tend to provide two principal categories of expertise: those that relate to *managing wealth* and those that relate to *family support*.

Under the umbrella of wealth management, we often find investment management and wealth planning (and all they entail). Family support services often include administrative and lifestyle services along with special projects as a sort of catchall service. Exhibit 5 provides an overview of the types of expertise typically provided by single-family offices.

EXHIBIT 5

### Expertise Provided by Family Offices

Wealth Management	Family Support
<p><b>Investment management</b></p> <ul style="list-style-type: none"> <li>• Discretionary investment accounts</li> <li>• Private equity investments</li> <li>• Venture capital investments</li> <li>• Marketable alternatives</li> </ul> <p><b>Wealth planning</b></p> <ul style="list-style-type: none"> <li>• Income tax planning</li> <li>• Estate planning</li> <li>• Business succession planning</li> <li>• Asset protection planning</li> <li>• Charitable tax planning</li> <li>• Cross-border planning</li> <li>• Life management planning</li> </ul>	<p><b>Administrative services</b></p> <ul style="list-style-type: none"> <li>• Tax compliance</li> <li>• Bill paying</li> <li>• Financial statements</li> </ul> <p><b>Lifestyle services</b></p> <ul style="list-style-type: none"> <li>• Concierge medicine</li> <li>• Family/personal security</li> <li>• Philanthropic advisory</li> </ul> <p><b>Special projects</b></p> <ul style="list-style-type: none"> <li>• Adoptions</li> <li>• Buying an island</li> <li>• Overseeing the construction of a house</li> <li>• Aircraft acquisition</li> </ul>

Here again, we see many of these same services and supports in place at virtual family offices today.

To help deliver those services, single-family offices are increasingly turning to outsourcing and external experts. The offices see outsourcing as a good way to mitigate costs, increase their capabilities, and potentially deliver goods, services and experiences faster. Always being able to have the “best of the best” is often possible only when the single-family office relies on at least a handful of external experts. Also, if something is incredibly time sensitive, there is a tendency to outsource.

That said, not everything is outsourced nor do all single-family offices use external experts. Outsourcing beyond the walls of the single-family office can reduce both control and confidentiality versus managing every aspect of the family’s life internally. If these factors are extremely important, and the family has the financial resources to bring the “best of the best” in-house, it’s likely that the single-family office will be mostly or entirely self-contained.

## The family office as coordinator

Because single-family offices are increasingly outsourcing, the importance of a formal structure becomes somewhat diminished. Moreover, the use of multifamily offices by some of the Super Rich is well established. And as noted, virtual family offices are proving to be another viable alternative to the single-family office.

As the name implies, multifamily offices aim to deliver a broad range of services and products (along with an exceptional experience) to numerous wealthy families and individuals. Today, multifamily offices are also extensively outsourcing for the same reasons single-family offices are doing so.

Virtual family offices are built around a wealthy individual or family. There is a subtle, nuanced and significant difference between multifamily offices and virtual family offices. The former have institutional components, such as investment capabilities, and their aim is to provide them to wealthy families. Virtual family offices are intended to be completely bespoke, with most of the needed expertise being outsourced.

Ultimately, outsourcing has become “the norm” among family offices of all stripes. But whereas single-family offices found their way to outsourcing, options such as the virtual family office essentially began with outsourcing as their foundation.

With outsourcing so pervasive, the various types of family offices—including virtual family offices—have essentially become **coordinators of expertise**. It is less and less about being self-contained and more about achieving the most cost-effective outcomes possible.

Consider a hypothetical virtual family office. At the center of that family office is the individual or family, supported directly by a coordinator—a person or team of people that:

- Possibly provides a particular expertise.
- Coordinates and facilitates other experts on behalf of the family.

The coordinator can be any type of professional. Accountants with high-net-worth practices and private client lawyers are increasingly looking to act as coordinators. In the example shown in Exhibit 6, the coordinator is a wealth manager working with entrepreneurs. The coordinator draws on the skills and expertise of a broad array of specialists to deliver the type and level of expertise commonly found within single-family offices. These specialists “fill in the gaps” by providing the expertise the coordinator does not personally possess.

EXHIBIT 6  
The Wealth Manager as Coordinator of a Virtual Family Office

**Specialists**

- Administrative and tax professionals .....
- Life insurance experts .....
- Attorneys .....
- Concierge medical practice .....
- Family security experts .....
- Trust company .....



The coordinator stays in close contact with the client to help ensure the various specialists are delivering as promised and works diligently with the client to help ensure the desired results are achieved.

Among single-family offices worldwide, most are establishing legal structures and hiring dedicated staff. But even in these scenarios, there is a growing trend to embrace the coordinator role. The concept of the coordinator is likely to become a defining characteristic of *all* types of family offices in the coming years—particularly virtual family offices.

What is therefore of considerable importance are the *best practices* of coordinators at family offices.



## How coordinators at a family office deliver superior results

Regardless of the type of family office, all coordinators at high-performing family offices share some core characteristics:

- The coordinators really understand you as a person, including your hopes and dreams, concerns, and anxieties.
- The coordinators are very good at explaining complex concepts, ideas, opportunities and solutions in ways you understand.
- You have a sincere and trusting relationship with these coordinators.
- The coordinators are consistently able to access best-of-class expertise and solutions.
- The coordinators are able to attain the expertise your family needs and wants on an expedited and cost-effective basis.
- Because of the coordinators, you and your family are able to “jump the line” when it comes to getting the solutions you need and want.
- Your coordinators are constantly taking steps to catch and correct any mistakes or potential problems with what you are doing or are considering doing.
- The coordinators regularly employ “What if?” scenario thinking to identify possibilities and opportunities in order to determine the very best courses of action.
- The coordinators assess whether you are following the best possible course of action, or whether an alternative would be more appropriate and effective.

**The upshot:** The talent and proficiencies of coordinators are becoming increasingly instrumental to the success of family offices—and the success of the families they serve.



VFO Inner Circle Special Report

By Russ Alan Prince and John J. Bowen Jr.

© Copyright 2021 by AES Nation, LLC. All rights reserved.

No part of this publication may be reproduced or retransmitted in any form or by any means, including, but not limited to, electronic, mechanical, photocopying, recording or any information storage retrieval system, without the prior written permission of the publisher. Unauthorized copying may subject violators to criminal penalties as well as liabilities for substantial monetary damages up to \$100,000 per infringement, costs and attorneys' fees.

This publication should not be utilized as a substitute for professional advice in specific situations. If legal, medical, accounting, financial, consulting, coaching or other professional advice is required, the services of the appropriate professional should be sought. Neither the authors nor the publisher may be held liable in any way for any interpretation or use of the information in this publication.

The authors will make recommendations for solutions for you to explore that are not our own. Any recommendation is always based on the authors' research and experience.

The information contained herein is accurate to the best of the publisher's and authors' knowledge; however, the publisher and authors can accept no responsibility for the accuracy or completeness of such information or for loss or damage caused by any use thereof.

---

Unless otherwise noted, the source for all data cited regarding financial advisors in this report is CEG Worldwide, LLC. The source for all data cited regarding business owners and other professionals is AES Nation, LLC.

